



What happened to the Washington Consensus? The evolution of international development policy

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ABSTRACT

The term “Washington Consensus”, as Williamson the father of the term conceived it, in 1989, was a set of reforms for economic development that he judged “Washington” could agree were required in Latin America. However, the Washington Consensus has been identified as a neoliberal manifesto and calls were made for the implementation of a different set of policies, which took the form of the “Augmented Washington Consensus”. Lately, Williamson offered a new set of policies the “After the Washington Consensus”. The aim of this paper is to investigate the different interpretations and alternatives of this controversial set of policies, and to reveal the historical evolution of the implemented policies for international development.

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1. Introduction

Williamson introduced the term “Washington Consensus” in 1989. The term, as Williamson conceived it, was in principle geographically and historically specific, a lowest common denominator of the reforms that he judged “Washington” could agree were required in Latin America at the time. [Williamson \(1990a\)](#) attempted to outline what would be regarded in Washington as constituting a desirable set of economic policy reforms to stimulate development. “Washington”, for Williamson, incorporated the International Monetary Fund (IMF), the World Bank, and the US executive branch, the Federal Reserve Board, the Inter-American Development Bank, those members of Congress interested in Latin America, and the think tanks concerned with economic policy; it is an amalgamation of political, administrative and technocratic Washington. The Washington Consensus was portrayed as the “the conventional wisdom on the day” ([Williamson, 1993](#), p. 1329), “the outcome of an opinion survey” ([Williamson, 1994](#), p. 39), “economic common sense” ([Williamson, 1996](#), p. 20), and as “a statement of what ‘serious’ economists ought to believe” ([Williamson, 1996](#), p. 21). The Washington Consensus has been accepted as common wisdom on policies for development and growth.

The Washington Consensus has been identified as a “neoliberal manifesto” and a debate was initiated as calls have been made for the establishment of alternative sets of economic development policies. Those who opposed the policies of the Washington Consensus proposed policies emphasizing social equity, safety nets and institutional development which, they alleged, were overlooked in the original Washington Consensus. Lately, [Kuczynski and Williamson \(2003\)](#) devised a new set of policies labeled “After the Washington Consensus” as a means to call attention to a new set of reforms required to resume growth in Latin America, but this time, as they argue, in a more equitable way.

The aim of this paper is to determine the different versions, interpretations and alternatives of this controversial set of policies emanated by Washington, which reflect the path dependent historical development of the term. Hence, this inquiry into the evolution of the Washington Consensus, in the form of a “neoliberal manifesto”, “Augmented Washington Consensus” and “After the Washington Consensus” reveals the similarities and dissimilarities between alternative policies for economic development. It is demonstrated that in actual fact Williamson, the father of the term, the critics of the Washington Consensus and the policy-makers in Washington were adding, subtracting or amalgamating policies incorporated in the term as the time went by. This inquiry requires serious attention to the ideas, their antecedents, interrelationships, and their place in the intellectual landscape.

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The paper contributes and determines in a historical-systematic way the evolution of the debate on international development policy, which to my knowledge it has not been attempted before. Students of international development would benefit from these findings as they would be able to distinguish between the alternative set of policies implemented and the interrelationships between development programs. Students of economic development would be able to appreciate: “The many self-proclaimed policy consensus that have emerged throughout the region in the past few years, from Santiago to Monterrey, from Cusco to Buenos Aires, reflect this unappeasable thirst for paradigms” (Santiso, 2004, p. 841).

I would employ a classification strategy. Williamson's original Washington Consensus is the starting point. Successive waves of critics – sympathetic and unsympathetic – are scrutinized according to how they modified the list. The debate is summarized in Table 1 as a grid in which the rows represent various planks of the original consensus and the columns represent the various alternatives, starting with Williamson's original Washington Consensus. This format has the aim to give structure to the discussion by demonstrating precisely which tenets are challenged by which alternatives. The discussion also incorporates justifying the placement of particular policy prescription in the right cell of the grid.

2. The original Washington Consensus

The genesis of the term “Washington Consensus”, as the “father” of the term Williamson (1996, p. 15) explains, commenced in 1989, when the inventor of the term was invited to a US Congressional Committee to articulate his support for the Brady Plan. The Brady Plan, the principles of which were first articulated by U.S. Treasury Secretary Nicholas F. Brady in March 1989, was designed to address the debt crisis of the 1980s. The debt crisis began in 1982, when a number of countries, primarily in Latin America, confronted by high interest rates and low commodities prices, admitted their inability to service hundreds of billions of dollars of their commercial bank loans.

Williamson argued that there was a mistaken cultivation of the belief in developed countries that Latin America had failed to implement a structural adjustment program. In contrast to this belief, Williamson acknowledged that many Latin American countries had started to implement outstanding deep economic reforms. *Per se*, Latin America deserved support in the form of debt relief. A few weeks later, Williamson presented a seminar at the Institute of Development Studies at Sussex on the same theme. At this time he reiterated his support for the Brady Plan and debt relief for Latin America. As the creator of the term explains, the term originated from an attempt to answer the following question posed to him by Hans Singer during the seminar: “What were these ‘sensible’ policies that were pursued in Latin America?” (Williamson, 2000, p. 254). In an attempt to respond to this question, Williamson outlined a list of the 10 reforms, which he thought command general support in Washington, baptizing the set of policies as the “Washington Consensus”.

In November 1989, the Institute for International Economics convened a conference to investigate what was actually happening with the economic reforms in Latin America. Structural adjustment in Latin America had the goal of substituting a market-based economic system for a traditional statist economic system (Williamson, 1990b, p. 402). In this conference, Williamson (1990a) found the opportunity for the first time to reveal his new-found term in a background paper that would spell out the substance of the policy debate for the conference, entitled *What Washington Means by Policy Reform?* The background paper was sent to 10 authors who had agreed to write country studies for the conference.

The papers presented were subsequently edited by Williamson (1990c) and published in a book entitled *Latin America Adjustment: How Much Has Happened?* As a result the term “Washington Consensus” became public knowledge.

Williamson (1990a, 1993, 1994, 2004–5) identified and debated 10 policy instruments, whose proper deployment could muster a reasonable degree of consensus in Washington. The list of 10 reforms “were practically universally agreed in Washington to be desirable in most Latin American countries” (Williamson, 2004–5, p. 195). The consensus signifies a reconsideration of what used to be traditional economic development advice: import substitution, nationalization, planning, and use of the inflation tax to raise savings. As of 1989, systematic thinking on international development had produced a set of multiple and complementary reforms that specified the need to establish property rights and effective market incentives, and to maintain macroeconomic stability. These reforms had long been regarded as orthodox in the OECD countries, as Williamson argued. The goal of the conference and subsequent writings of Williamson was to use the term as a means to impress on Washington that Latin America deserved debt relief under the Brady plan. The region had rejected the economic development mentality of the 1960s and the time was right to demonstrate that Latin America had implemented reforms that Washington would agree were required and hence should be funded.

The Washington Consensus was the lowest common denominator of orthodoxy during the years of the dominance of Ronald Reagan's conservative ideology (Williamson, 1996, p. 13). This set of policies prevailed in the mainstream economic thought, instead of being dismissed once Ronald Reagan retired. The Washington Consensus was a review of international development policies at the time when economists were swayed that hasty economic development is not a function of natural resource endowment or physical or human capital but rather the result of the set of economic policies implemented (Williamson, 2000, p. 254). This Consensus was inconceivable, even inappropriate, in the 1950s. Now (=1989), we are more knowledgeable about which economic policies have succeeded (Williamson, 1993, p. 1331). It should be pointed out that the 10 controversial policies are policy instruments and not policy objectives or policy outcomes.

The Washington Consensus was intended to be a positive statement of the necessary set of policies and not a normative statement: “I tried to describe what was conventionally thought to be wise rather than what I thought was wise” (Williamson, 1993, p. 1329). As such, Williamson avoided any direct equity concerns and redistributive policies in formulating the Consensus since Washington, at the time, was not interested in equity. Equity could only be the derivative of achieving efficiency through a free market process. *Per se*, Williamson felt that the Washington Consensus should be accepted across the political range, even by those who place more weight on equity; their cause could only be advanced by adopting mainstream economics formulated in the Washington Consensus, as it is quite awkward that “left-wing parties espouse economic rubbish that jeopardizes their prospects of being able to further egalitarian causes” (Williamson, 1993, p. 1330). At the same time though “it happens, however, that I endorse everything on the list, which is hardly surprising since I live in Washington and like to think of myself as reasonably eclectic rather than temperamentally rebellious” (Williamson, 1993, p. 1329).

In the following I outline the 10 policy reforms of the Washington Consensus based on Williamson (1990a, 1993, 1994, 2004–5).

1. *Fiscal discipline*: budget deficits should be small enough to be financed without recourse to the inflation tax.
2. *Public expenditure priorities*: public expenditure should be redirected from politically sensitive areas that receive more

resources than their economic return can justify toward neglected fields with high economic returns and the potential to improve income distribution, such as primary education and health, and infrastructure.

3. *Tax reform*: to broaden the tax base and cut marginal tax rates.
4. *Financial liberalization*: an ultimate objective of market-determined interest rates.
5. *Exchange rate policy*: a unified exchange rate at a level sufficiently competitive to induce a rapid growth in non-traditional exports. A competitive exchange rate is a rate that is either not misaligned or undervalued; nevertheless overvaluation is worse than undervaluation (Williamson, 2004–5, p. 200).
6. *Trade liberalization*: quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced up to a uniform low rate in the range of 10–20% was achieved.
7. *Foreign Direct Investment (FDI)*: abolition of barriers impeding the entry of FDI.
8. *Privatization*: privatization of state enterprises.
9. *Deregulation*: abolition of regulations that impede the entry of new firms or restrict competition.
10. *Property rights*: the provision of secure property rights, especially to the informal sector.

The comments that Williamson received in the conference and in the subsequent debate on the term, were that “consensus” might have been a very strong word on the grounds that, in actual fact, there is no complete consensus. Toye (1994, p. 35) argued that the word was misleading and that it failed to specify precisely what the term is intended to denote. It was argued that the word “consensus” precluded the participants of the debate from including some issues that they personally thought important, but which did not seem to command a consensus. Additionally, a lack of total consensus could be desirable, because there was a danger that a consensus could become an ideology in its own right and ideologies can easily be discredited. As well, the term was criticized as implying that the implemented reforms were the result of coercion by Washington rather than the voluntary decision of domestic policymakers, acknowledging that these reforms were desirable and necessary. Instead of the Washington Consensus, Feinberg (1990, p. 22) suggested “convergence”, while Iglesias (the President of the Inter-American Development Bank) suggested a more natural name “Latin America Consensus”.¹ In the end, Williamson accepted that he “rashly dubbed it” (Williamson, 1993, p. 1329), “somewhat unfortunately dubbed ‘the Washington Consensus’” (Williamson, 1996, p. 13), “is a misnomer” (Williamson, 1993, p. 1329) and that “convergence” might have been a better description of the state of policy debate than “consensus”. After this, Williamson (1990b, p. 410, 1990d, pp. 1–2, 1993, p. 1329, 1994, p. 13, 17, 1996, p. 16) repeatedly admitted that “universal convergence” might have been a more accurate term, in view of the fact that there is convergence which extends beyond Washington. However, it was too late to change the name because the term had become entrenched through repeated use. Meanwhile, since the original intention was to highlight the need for debt relief for Latin America in Washington, Williamson (1996, p. 17, 1997, p. 49) reaffirmed that the name, for that time, was appropriate.

Iglesias (1990, p. 349) highlighted the concern that there is no consensus on the amount of time that the adjustment measures required to mature or on the sequencing of the reforms. The

timing question is very important because it is linked to the question of expectations; the postponed expectations and aspirations of the public are a major political concern. How can you explain to governments that structural adjustment is going to take years when the political process is clearly oriented toward having results a lot sooner? Hence there is a potential incompatibility between the time that is necessary for structural adjustment and the social and political tolerance of the public experiencing years of sustained reduction in the standard of living. Thus, the pace and sequencing of reforms becomes a major issue for which the Washington Consensus did not make a recommendation.

Williamson's (1994, p. 20) response was the proposition that the best time to introduce the reforms is immediately after the reform-minded government takes power. An incoming government enjoys a “honeymoon period” during which the public will give it the benefit of the doubt and blame any sacrifices and difficulties on its predecessor. In all probability, this honeymoon will not last forever; hence decisive action is essential. Notably, “consensus on good economics is important if economic reform is to succeed” (Williamson, 1993, p. 1330). However, the most difficult part of a reform program is not enacting the reforms, but maintaining confidence and sustaining them until they have chance to bear fruit and generate political support from the potential beneficiaries. How difficult this is depends upon the lag between the initial reforms and the emergence of political beneficiaries. It has even been suggested that programs should be designed to try and ensure the early emergence of some group of beneficiaries who will provide strong support for the program. It could be argued that this is inconsistent with the basic goal of economic reform, which is to provide a level playing field rather than favor particular groups. Importantly, democracy should not be sacrificed in the name of “good economic policy”; to be more precise both democracy and economic policy benefit when politicians adopt the universal coverage of the Washington Consensus (Williamson, 1993, p. 1331). Presumably a recommendation for rapid and comprehensive reform is appropriate in some cases, but not others (Williamson, 1994, p. 23).

During the discussion after the presentation of the paper, Williamson (1990a, p. 18) acknowledged that while fiscal discipline is certainly a precondition for controlling inflation, it might need to be supplemented by price and wage freezes and a fixed exchange rate. On the opposite view, price liberalization should be added as a policy instrument to the Washington Consensus. However, since there was no consensus view on this issue, as Williamson argued, it could not be included. Additionally, on the topics of poverty and the environment, there was no consensus in Washington on what should be done about either on these important issues. Nevertheless, even with the aforementioned omissions, the set of policies recommended had general applicability in other developing countries (Williamson, 1993, p. 1332), because “in practice there would probably not have been a lot of difference if I had undertaken a similar exercise for Africa or Asia, and that still seemed to be the case when I revisited the topic (with regard to Latin America) in 1996” (Williamson, 2000, pp. 254–5).

Part of the debate initiated by Williamson would be over the applicability, or lack thereof, of neoclassical economics to development policy, the underlying foundation of the Washington Consensus. As Williamson (1996, p. 19, 1997, p. 49) admitted he considers himself a classical liberal in the tradition of John Locke, Adam Smith, and John Stuart Mill.² The adherence of Williamson

¹ Stewart (1997, p. 62), a discussant to the Williamson's (1997) paper, also agreed with this name. Williamson (2000, p. 251) also recognized that the name “one-world Consensus”, as suggested by Waelbroeck (1998), would have been a better term for the intellectual coverage that he had in mind.

² For Williamson (1990a, p. 19) Keynes is included in classical mainstream economic theorists. Interestingly though, for Williamson, Keynes' most unfortunate legacy is linked with his practice to question orthodoxy. “It was actually rather funny when he did it, and doubtless some of his targets deserved the treatment, but lesser

to the classical liberal position of “free markets”, explains the construction of the Washington Consensus on the basis of market principles to economic development policy. Williamson would become the mouthpiece of the application of neoclassical economics to international development; what Williamson names mainstream economics.³

Nevertheless, the answers to questions associated with international development policy could not have been derived by using economic analysis alone, but also depended on the perception of social reality, assumptions, institutions, and ethical issues when constructing theory and elaborating upon policy. Based on assumptions about economic behavior and incorporating institutions, the following questions arose: How does the economic system function and respond to change? Also, what is a good society? The answers inevitably reflected the observer's personal assessment, in this case of Williamson, of each economic and non-economic performance dimension, as well as, the significance assigned to those performance dimensions. In addition, alternative and often conflicting economic theories use different criteria for determining, how society and the economy functioned, and how society should distribute responsibilities between the market and the government. Thus, different views on “social reality” and “what is a good society?” are associated with distinct methodologies and a particular set of social values, which have implications for economic policy formulae (Caporaso and Levine, 1993, p. 3). This gives rise to alternative international development policies, based on different assumptions, different institutions, different methods of analysis and different goals.

A paradigm depicts, in a simple manner, the process by which complex organizations operate (Barratt-Brown, 1995, p. 1). Paradigms result from the need for people to understand and attempt to control their environment by fitting observations into some pattern to assist with the development of thought. Paradigms necessarily abstract from details so as to develop a framework to understand the complexities of the real world and attempt to reflect actual practices and economic processes. “Thus, one's view of the nature of historical change – its structure, sequence and casual mechanism – will color one's view of the permitted limits and permissible forms of generalizations” (Dobb, 1973, p. 22). Hence, paradigms are based on simplifying assumptions, as in the case of the Washington Consensus.

“Our knowledge of the economy is fallible” (Dow, 2002, pp. 178–9). But we can nevertheless build up knowledge within our chosen paradigms to formulate policy advice. These paradigms embody a set of values, a vision of reality and a methodology. But since there is no one paradigm which can claim supremacy, there is scope of a range of paradigms based on different methodologies built up on different assumptions. An economic paradigm is a synthesis of coherent traditions of scientific research and achievements that, for the time being, provide problems and solutions to a group of economists who share and subscribe to the beliefs, values and techniques of the economic model in question. This means that it is open to the economist to choose the methodological approach which is most appealing. Building knowledge in economics is not a straightforward matter of applying an agreed logic to an agreed set of facts; consequently

ideology takes on great importance. Value judgments are what we use when there is no clear demonstrated conclusion. Value judgments are of particular importance for economics, because the subject matter keeps changing and also because theorizing requires abstraction. “Indeed, in the actual development of theory, the ‘positive’ and the ‘normative’ elements have proved hard to separate and have increasingly tended to fuse” (Dobb, 1973, pp. 3–4).

The aforementioned analysis results in competition between alternative economic paradigms derived from scientific observation and procedure. Empirical testing cannot provide any sort of final resolution, since empirical tests themselves are theoretically based (Lee, 1990, p. 263). Theoretical analysis in a social theory, like economics, “inevitably has a casual story to tell” (Dobb, 1973, p. 30). Different types of casual story may have very different implications for what it is possible to do and to achieve by way of policy and social action; thus it is relevant, indeed crucial, for establishing what alternatives are viable within a given politico-economic-ideological framework. The ‘battle of ideas’ in formulating international development policy focused on which paradigm was most realistic, feasible, desirable and appropriate for the process in question. Awareness of such a background facilitates the interpretation of the less clear sources of disagreement between economists and of the overall complexities involved.

The summary of the recommended policy reforms under the original Washington Consensus appears in Table 1. The resurfaced policy omissions were price liberalization, poverty, the environment and equity. The issue of equity and improvement in income distribution would become a constant criticism of the Washington Consensus.

3. The Washington Consensus as a neoliberal manifesto

Stiglitz (1998, p. 6), one of the main critics of the Washington Consensus, argued that the success of the consensus as an intellectual course of action for development rested on its simplicity. This was a very important advantage of the Washington Consensus approach to policy advice. The policy recommendations could easily be administered by using simple accounting frameworks based on a few economic indicators: inflation, money supply growth, interest rates, budget position, and trade deficits. “Indeed, in some cases economists would fly into a country, look at and attempt to verify these data, and make macroeconomic recommendations for policy reforms all in the space of a couple of weeks” (Stiglitz, 1998, p. 6).

Even so, the simplifying assumptions of the Washington Consensus made it an easy target for attack from economists who disputed the interpretation and outcomes of Latin American reforms, and also from social scientists who questioned the obsession with economic development and neglect of social development. The Washington Consensus paid attention only to increasing real GDP (the total market value measured in constant prices of all goods and services produced within an economy during 1 year), while ignoring social indicators such as increasing living standards (a measurement of household welfare by including consumption, income, savings, employment, health, education, fertility, nutrition, housing and migration) and democratic-equitable-sustainable development.

The unavoidable question arises: Was Williamson actually just presenting a consensus or was he presenting his personal policy recommendations as a consensus as a means to be more persuasive, convincing, and influential. Stewart (1997, p. 68) attempts to answer the question by arguing that consensus is a word “often used by those who would like their own views to be accepted.

followers reduced it to a cheap routine”. A position becomes orthodox because it makes sense, so to reject a position because it is orthodox “is silly”. Needless to say, this does not imply that orthodoxy is always correct or should not be challenged (Williamson, 1993, pp. 1334–5).

³ Mainstream theory incorporates public goods and externalities, Keynesian economics and public choice theory. “Anything, say, for which the Nobel Committee has seen fit to award the Nobel Prize” (Williamson, 1999, p. 2).

Table 1

The Washington Consensus, Washington Consensus as a Neoliberal Manifesto, Augmented Washington Consensus and After the Washington Consensus

Policies	Original Washington Consensus	Washington Consensus as a neoliberal manifesto	Augmented Washington Consensus	After the Washington Consensus
1. Fiscal discipline	Small budget deficit financed without resource to inflation tax	Balanced budget	As the original Washington Consensus	Crisis building. As the original Washington Consensus
2. Public expenditure priorities	Redirect expenditure from politically sensitive areas to fields with the potential to improve income distribution, such as primary education, health care and infrastructure	Reduce government expenditure	As the original Washington Consensus Social safety nets. Targeted poverty reduction	Crisis building As the original Washington Consensus. Social sector
3. Tax reform	Broadening tax base and cutting marginal tax rates	Overall tax cuts and eliminate taxes that redistribute income	As the original Washington Consensus	As the original Washington Consensus Income distribution
4. Financial liberalization	Market determined interest rates	As the original Washington Consensus	As the original Washington Consensus Financial codes and standards	Crisis building. As the original Washington Consensus
5. Exchange rates	A unified competitive exchange rate	Convertible freely floating exchange rates	Non-intermediate exchange rate regimes	Crisis building. As the original Washington Consensus
6. Trade liberalization	Replace quantitative trade restrictions with tariffs of around 10–20%	Free trade and the elimination of protection and capital controls	As the original Washington Consensus WTO agreements. “Prudent” capital-account opening	Crisis building. As the original Washington Consensus
7. Foreign direct investment	Abolish barriers to entry for foreign firms	As the original Washington Consensus	As the original Washington Consensus	As the original Washington Consensus
8. Privatization	State enterprises should be privatized	As the original Washington Consensus	As the original Washington Consensus	As the original Washington Consensus
9. Deregulation	Abolition of regulations that impede entry of new firms or restrict competition	Deregulation of entry and exit barriers and the suppression of regulations designed to protect the environment	As the original Washington Consensus flexible labor markets	As the original Washington Consensus
10. Property rights	Secure property rights which are also available to the informal sector	Not a concern	As the original Washington Consensus	As the original Washington Consensus
11. Institution building	Not a concern	Independent central bank and money supply should grow at fixed rate consistent with monetarism	As the original Washington Consensus Corporate governance. Anti-corruption. Independent central banks/inflation targeting	Crisis building. Second generation of reforms
13. Price liberalization	No consensus. Price and wage freezers and fixed exchange rate vs. free prices	Immediate price liberalization		

When Williamson firstly used the term Washington Consensus, he implied that everyone agreed with Washington, and further that this agreement indicated that Washington was right". In addition, on the one hand, "there is no consensus that those [Washington Consensus] precepts, while important, are neither necessary nor sufficient for successful development" (Stiglitz, 2000, p. 13). On the other hand, "there is also an emerging consensus that the Washington Consensus was not only faulty in its narrow economic strategies, but also excessively narrow in its objectives" (Stiglitz, 2000, p. 13).

The "misinterpretation", as Williamson argues, of the Washington Consensus as a neoliberal manifesto defined the consensus as the set of economic policies implemented by Ronald Reagan and Margaret Thatcher under the inspiration of Friedrich Hayek and Milton Friedman. However, in this interpretation of the term, "Washington" as an area of authority has expanded. The consensus was derived between 15th Street and 19th Street in Washington among the United States Treasury, the IMF and the World Bank, as well as some influential think tanks, a prominent majority of academics along with assorted editorialists and, most importantly, business interests (Kolodko, 1999a, pp. 6–7; Naim, 2000, p. 91). The reference to Washington suggested rightness on the part of Washington and thus implied the financial dependency of developing countries on Washington. While it is true that Latin American countries adopted the Washington Consensus formula, this acceptance did not mean that Washington was right. Washington institutions imposed their views on Latin America, and also on other countries, through policy conditionality. Support for the Washington Consensus was also provided from within, as Latin Americans with newly Ph.D.s acquired from U.S. economics departments returned to positions of authority. Nonetheless, this process was also the product of Washington: Latin American students received generous scholarships from the United States to be taught the consensus, "just as in the colonial era" (Stewart, 1997, p. 63).

For those who interpreted the Washington Consensus as a neoliberal manifesto the consensus took on almost religious characteristics (Broad and Cavanagh, 1999, p. 80). The high priests of the consensus – the U.S. Department of Treasury, the IMF and the World Bank – were in the sacred temple of Washington. Converts to the cult spread the message through a combination of the appeal of its simplicity, proselytizing by its believers and outright coercion. Meanwhile, the high priests of the Washington Consensus and the converts, the "economic advisors", acted as if there was no further need for debate and discussion. "When propositions such as those contained in the Washington Consensus are not treated as fallible and open to qualification and revision, they become pillars of dogma rather than of wisdom" (Cross and Strachan, 2001, p. 197). The set of policies has evolved to describe an extreme and doctrinaire commitment to the belief that markets can solve all troubles, and this axiomatic conviction to be valid for all places and at all times. It is a "one-size-fits all" approach (Stiglitz, 2002, p. 34).

The neoliberal manifesto has been taken to imply that the policies to achieve economic growth in developing countries, as the experience of Latin America revealed, were: macroeconomic stability, fiscal austerity, market liberalization, privatization and "getting prices right" (Stiglitz, 1998, p. 1, 2000, p. 13, 2002, p. 53). It was assumed that fiscal discipline, accompanied by deregulation, trade liberalization and privatization would be sufficient to eliminate stagnation and launch economic growth in developing countries and in transition economies. The fashionable interpretation held that unfettered free markets, a reduced role for the state – essentially, once the government "got out of the way" (Stiglitz, 1998, p. 1) – and integration into the international economy provided the best *modus operandi* for development (Levinson, 2000, p. 11). Washington made a concerted effort to shift policies worldwide

towards monetarist, market-oriented, open, non-interventionist policies (Stewart, 1997, p. 63).

Needless to say, democratically elected governments are free and not required to adopt the consensus policies. These economies have freedom to choose the pace, sequence, direction, and add or remove policies in the consensus. Nevertheless, as long as they desire to borrow from the IMF and World Bank, reschedule their debt, or promote foreign investment, the world's financial markets require a specific set of policies on the part of borrowing countries. Namely, their policies have to be consistent with the Washington Consensus. Supporters of the Consensus, such as Toye (1994, p. 35), dispute the interpretation that the word "Washington" implied the imposition of economic correctness by Washington on reluctant countries. Washington institutions were only "vital catalysts" in the process of developing the decision to adopt the path of reform (Toye, 1994, p. 35). The decision of these economies to adopt the Washington Consensus was voluntary.

Whereas certain recommendations of the Washington Consensus were relevant for addressing the economic crises of Latin America in the 1980s and produced some improvements in economic policy management, like lower inflation, low budget deficits, reduced external debt and some economic growth (Santiso, 2004, p. 829), they were insufficient for achieving long term growth or even macroeconomic stability under different conditions (Stiglitz, 1998, p. 29). Thus, "the more dogmatic versions of the Washington Consensus" (Stiglitz, 1998, p. 3) are not suitable to examine the success of the East Asian economies and China, as these countries did not follow the standard recipe of the consensus. The East Asian experience revealed that the success of these economies depended not on macroeconomic stability or privatization; but rather on a robust financial system in which the government played an increasing role in creating and maintaining a competitive economy, and on public investment in human capital and technology transfer. At the same time, there were several countries, notably Russia that followed perfectly the recommendations, but had not grown. In particular, the magnitude and duration of Russia's slump is itself a puzzle, while the magnitude and success of China's economy also represented an enigma for the Washington Consensus. China followed some policy recommendations of the Washington Consensus, such as macro-stability, but extended the scope of competition and provided a productive environment for entrepreneurship without privatization and liberalization. In contrast, Russia privatized a large fraction of the economy without doing much to promote competition. The contrast in performance could not be greater, with Russia's output substantially reduced, while China managed to sustain high growth rates.

As Latin America was experiencing escalating inflation, inefficient state enterprises, and stagnation behind protectionist walls, it was quite natural that these features provided the setting for the Washington Consensus. But the consensus resulted in policies that were not conducive to long-term economic growth: a weak financial system (problems of incomplete information, incomplete markets and incomplete contracts are severe in the financial sector), competition policy, education and improvement in technology (Stiglitz, 1998, p. 15). In the meantime, the Washington Consensus assumed both private property and competitive markets to be existence, but developing and transition economies lacked both (Stiglitz, 1998, pp. 18–9).

While Stiglitz (1998, p. 23) recognized that privatization is important, the advocates of privatization overestimated its benefits and underestimated the costs: "should prisons, social services, or making of atomic bombs (or the central ingredient of atomic bombs, highly enriched uranium) be privatized, as some in the United States have advocated?". Privatization, Washington Consensus style, had the ulterior motive of achieving a minimalist and

non-interventionist state, as the Washington Consensus as a neoliberal manifesto stipulated, since it rejected the state's activist role. "The unspoken premise is that governments are worse than markets. Therefore the smaller the state the better the state" (Stiglitz, 1998, p. 23). However, there were well-defined market failures, associated with externalities, public goods, imperfect information and incomplete markets that justified government intervention. Consequently, an approach for a more productive economy required the determination of an appropriate role for government. Also, there is an acknowledgment that capital market liberalization can expose countries to enormous amounts of volatility and thus governments should stabilize capital flows: "it's like a dam. In the absence of the dams you can have a flood of water from the top of the mountain goes to the sea, which in the process can cause a lot of death and destruction. You put a dam in, the water still goes from the top of the mountain to the sea, but meanwhile you are able to channel that water and make it productive" (Stiglitz, 2000, p. 14).

As part of the obsession with liberalization, the Washington Consensus recommendation was to deregulate labor markets, since mainstream economic theory treated labor like any other commodity. The greater flexibility in the labor market was supposed to lead to lower unemployment and to generate more investment and thus more demand for labor. The evidence in Latin America was not supportive of those conclusions (Stiglitz, 2000, p. 17). Wage flexibility had not been associated with lower unemployment and job creation. Labor market flexibility "too often ... moved people from low productivity to unemployment, which is even lower productivity" (Stiglitz, 2000, p. 21). In the meantime, income distribution in many of the economies that implemented the Washington Consensus had become sharply more unequal. As a rule, the attitude of the followers of the Washington Consensus has been that, although this inequality was somewhat unfortunate, it was a necessary outcome, to be expected and, within bounds, to be desired.

In sum, "...the policies advanced by the Washington Consensus are not complete, and they are sometimes misguided" (Stiglitz, 1998, p. 1); "grounded in these views of the world are likely to be, at least, badly flawed and, at worst, counterproductive" (Stiglitz, 1998, p. 3); "solutions will not be found in the Washington Consensus" (Stiglitz, 1998, p. 3); "but the Washington Consensus does not offer answers to every important question in development" (Stiglitz, 1998, pp. 6–7); "the messages of the Washington Consensus in the two core areas (macro-stability and liberalization) are at the best incomplete and at worst misguided" (Stiglitz, 1998, p. 7); "the set of policies that underlay the Washington Consensus are not sufficient" (Stiglitz, 1998, p. 18); "the Washington Consensus advocated use of small set of instruments (including macroeconomic stability, liberalized trade and privatization) to achieve a relatively narrow goal (economic growth)" (Stiglitz, 1998, p. 31); and "it was incomplete and sometimes even misleading" (Stiglitz, 1998, p. 34). "Hence, the search needs to go on. The idea that a consensus has been reached is objectionable because it suggests that we know and agree on what is the best path. We neither know nor agree" (Stewart, 1997, p. 68).

In the following, the view of the Washington Consensus as a neoliberal manifesto is presented based on Broad and Cavanagh (1999), Cross and Strachan (2001), Gore (2000), Kolodko (1999b, 2000), Levinson (2000), Naim (2000), Srinivasan (2000), Stiglitz (1998, 2000, 2002), in the order presented by Williamson in the original version.

1. *Fiscal discipline*: establish a balanced budget.
2. *Public expenditure priorities*: reduce government expenditure.
3. *Tax reform*: enact overall tax cuts and eliminate taxes raised in order to redistribute income.

4. *Financial liberalization*: market-determined interest rates.
5. *Exchange rate policy*: exchange rates ought to be fully convertible and freely floating.
6. *Trade liberalization*: establish free trade and eliminate protection measures and capital controls.
7. *Foreign Direct Investment (FDI)*: abolish barriers to entry and exit for foreign firms.
8. *Privatization*: state enterprises should be privatized through vouchers.
9. *Deregulation*: eliminate entry and exit barriers and suppress regulations designed to protect the environment.
10. *Property rights*: it is stipulated that the Washington Consensus did not generally show any interest in institutions, including property rights.
11. *Institution building*: establish an independent central bank with the rule that the money supply should grow at a fixed rate consistent with monetarism.
12. *Price liberalization*: while price liberalization was not included in the Washington Consensus, the neoliberal manifesto requires immediate price liberalization.

The Washington Consensus as a neoliberal manifesto is presented and contrasted in Table 1.

Williamson was quite surprised that his baby had been used to espouse "neoliberalism" or "market fundamentalism". The term had been misconstrued: "This struck me as an abuse of language" (Williamson, 1996, p. 19) and "this I regard as a thoroughly objectionable perversion of the original meaning" (Williamson, 2004–5, p. 201). Williamson argued that he was always quite careful in the usage of words and terms, so that disagreements would not be mere reflections of verbal ambiguities: a consensus can only mean consensus (Williamson, 2002b, p. 5, 2004–5, p. 199). As the Washington Consensus is a consensus between the IMF, World Bank, and the US Treasury, "... those using the term this way apparently unconcerned with the need to establish that there actually was a consensus in favor of the policies they love to hate" (Williamson, 2004–5, p. 201).

Williamson has repeatedly maintained that the Washington Consensus was a lowest common denominator rather than a manifesto, not even close to a neoliberal manifesto. The Washington Consensus did not propose: slashing government expenditure so as to achieve a balanced budget; tax-slashing – there is no taxation phobia – especially those which redistribute income; exchange rates had to be either firmly fixed or freely floating; competitive moneys or that the money supply should grow at fixed rate (monetarism); abolishing capital controls; suppression of regulations designed to protect the environment; removal of incomes and industry policies; and privatizing all state enterprises such as water and rail. In any case, "...let us at least have the decency to recognize that these ideas have rarely dominated thought in Washington and certainly never commanded a consensus there or anywhere much else ..." (Williamson, 2002a, p. 2). Instead, the Washington Consensus was in favor of monetary discipline; tax reform; trade liberalization; deregulation of entry and exit barriers. While it was true that privatization was derived from the neoliberal agenda it became part of the consensus, but nevertheless it mattered how privatization was done. Deregulation did not imply abolishing safety or environmental regulations or regulations governing prices in a non-competitive industry. In sum, the Washington Consensus was a set of policy reforms that reduced the role of government in the economy. Nonetheless, "this need for liberalization did not necessarily imply a swing to the opposite extreme of market fundamentalism and a minimalist role for government. ..." (Williamson, 2000, p. 256).

Williamson found some allies in his battle to disassociate the Washington Consensus from a neoliberal manifesto. Persaud (1997, p. 71) stated that “it is an insult to these reform economists that this change in thinking should be seen as a kind of brainwashing from Washington and from the US universities at which they had their training”. As well, the international financial institutions did not impose their policies of reform on unwilling countries; rather, they were a vehicle in facilitating the decision for reform (Toye, 1994, p. 35). At the end, “I [Williamson] am not persuaded by the evidence usually cited to support the notion that there is a backlash against the reform. . . . So I see no persuasive evidence for the backlash thesis” (Williamson, 1999, p. 16), because even “. . . endorsing those criticisms does not mean returning to the global apartheid of the days prior to the Washington Consensus” (Williamson, 2002a, pp. 3–4). Nevertheless, “the danger is that Stiglitz’s denigration of the Washington Consensus will serve to undermine the long-overdue consignment of this load of non-sense to the dustbin of history by those who do not realize what a narrow concept of the Washington consensus he is using” (Williamson, 2002b, p. 5).

For Williamson (1994, p. 18) “in most cases my personal views on these controversial issues are far removed from those of neoconservatives, so I find it ironic that some critics have condemned the Washington Consensus as a neoconservative tract?” Hence, actually, what does the term “neoliberal” stand for? Williamson was perplexed, as it was not clear to him what the term denoted, even though it appeared that most commentators comprehended the term. When Williamson discovered that neoliberalism consisted of the economic principles advocated by Ronald Reagan and Margaret Thatcher – strangely enough as they would have rejected the label of “liberal” – it made sense to him what commentators were rejecting. Then again, how is it possible to characterize the consensus as a neoliberal agenda when it does not call for slashing government expenditure and taxes and achieving a balanced budget, establishing a fixed or floating exchange rate, advocating monetarism, privatizing every state enterprise, supporting the suppression of regulations designed to protect the environment or avoiding the use of incomes and industrial policies? (Williamson, 1996, pp. 19–20, 1997, p. 50, 2000, p. 225) The “need for liberalization did not necessarily imply a swing to the opposite extreme of market fundamentalism and a minimalist role for government, but such boring possibilities were repressed in the ideological debates of the 1990s” (Williamson, 2000, p. 256). Thus, “as a statement of the neoliberal creed, the consensus was quite deficient” (Williamson, 1997, p. 50). The consensus cannot reasonably be interpreted as a neoliberal manifesto and was quite inadequate from a neoliberal standpoint. In conclusion, “I suspect that many of those who most fervently denounce the Washington Consensus as a neoliberal manifesto have never actually read what I wrote but that the hostility to what is associated with Washington was sufficient to persuade them that I must be an apostle of what they disliked” (Williamson, 1996, p. 20).

Williamson’s response was necessarily twofold: Williamson was defending his argument that a consensus existed, responding to those that argued that there was no consensus, and that this consensus was actually the one that he was portraying, not the “misinterpretation” of the Washington Consensus as a neoliberal manifesto. Naturally there is some confusion regarding what is actually meant by the Washington consensus. I endeavor to rationalize the confusion, as the product of the continuous discrepancy between policy prescription and policy application. When Williamson was constructing the lowest common denominator, by definition he was not capturing all the particularities associated with policy implementation; he was constructing a general set of policies independently of the initial conditions of specific countries. Those who interpreted the Washington Consensus as a neoliberal

manifesto, as the aforementioned writers, were supporting their criticisms and formulating the set of policies of the manifesto on the basis of actual policy application by referring to specific countries. The debate was unfocused; the participants of the debate were talking to each other but not listening to each other, as they were talking about different issues.

An example of the confusion and the unfocused debate regarding the set of policies of the Washington Consensus is the implementation of the shock therapy process in transition economies. The set of policies of the Washington Consensus, it is claimed, was applied to structural crisis in the transition economies of the Commonwealth of Independent States, Central and Eastern Europe in the form of shock therapy,⁴ the newly industrialized economies and the ailing advanced economies (Cross and Strachan, 2001, p. 182; Florio, 2002; Kolodko, 1999b, pp. 4–5; Stiglitz, 2002, p. 141).

Hence, the question arises: How can someone argue that shock therapy was consistent with the Washington Consensus when shock therapy supporters – Sachs, Aslund, Lipton and others – were so critical of the policy advice of Washington – especially of the advice of the IMF? If the Shock Therapy approach was implementing the policies of the Washington Consensus, there could not be any reason to condemn Washington’s actions. Consequently, we cannot overlook the severe critique of “Washington” by the supporters of Shock Therapy, in particular Sachs (1994a). Sachs (1994a, p. 504) argued that “the International Monetary Fund’s view, all too often, is also based on a misunderstanding of what its own role should be”; “. . . our financial institutions, particularly the IMF, simply don’t operate fast enough or coherently enough to handle the financial crisis. . . .” (Sachs, 1994a, p. 511); “. . . the IMF’s failure to mobilize large-scale international support” (Sachs, 1994a, p. 516); “The IMF, meanwhile, told the G-7 in January 1992 that Russia did not really need much financial help” (Sachs, 1994a, p. 517); “The IMF was even less timely. In effect, the IMF told the drowning man not to worry” (Sachs, 1994a, p. 519); “I have also had six times more permanent advisers on the ground in Moscow than the IMF has had. The IMF has had two, and I have had 12” (Sachs, 1994a, p. 520). What is interesting about this account is not the critique of the IMF and of other international financial institutions by shock therapy supporters (that has been done in other places-papers), but most importantly the criticisms prompted a response by the director of the IMF’s External Relations Department, Shailendra J. Anjaria. The director wrote a letter, since no Fund staff was present at the conference to respond, explaining that Sachs “both understated and misconstrued what has been done”: blame should be placed not on the IMF but rather on the Russian authorities, who did not make or implement credible commitments to control money and credit expansion and control the fiscal deficit. In response Sachs (1994a, pp. 522–3) claimed that “the IMF’s delays and inattentiveness” resulted in the fall of the Gaidar government and with it the rejection of the Shock Therapy process of transition not only in Russia but also throughout Eastern Europe. As such, there is a need of *glasnost* on 19th street.⁵ These inciting criticisms indisputably substantiate the argument that it is not possible for Shock Therapy to have a

⁴ Personal communication with Jeffrey Sachs: “The main point – the crucial point – is that I believed (and believe) that I was helping Poland ‘return to Europe’, not make a U.S. style, much less a *laissez-faire* economy. I always said in speeches that whether Poland’s ultimate goal is ‘Sweden or the U.S. or Hong Kong’ the early steps would be about the same. I expected a sizeable social welfare system, including a public health system, public education, and science (of course), and public pensions. I was worried, also, about the costs (given that these were aging societies and poor ones as well). Thus, my frequent stress on foreign aid help to ease the fiscal bind”.

⁵ Apparently, the title of Sach’s paper is Sachs (1994b), “Toward *Glasnost* in the IMF”. *Challenge*, 37(3), May–June, pp. 4–11.

complete association with the Washington Consensus (Marangos, 2007; Williamson, 2007).

4. The Augmented Washington Consensus

Rodrik (2002, p. 1), in a paper presented at the “Alternatives to Neoliberalism Conference” sponsored by the New Rules for Global Finance Coalition in May 23–24 and at the BNDES seminar on “New Paths to Development”, in September 12–13 titled: *After Neoliberalism, What?*, also labeled the Washington Consensus an “application of neoliberal economic policies in the developing world”. Rodrik argued that the outcomes of these policies were very disappointing. On the one hand, the Washington Consensus policies implemented in Latin America, former socialist economies and sub-Saharan Africa had failed to stimulate growth, increased poverty, worsened inequalities, deepened economic insecurity and resulted in frequent and painful financial crises. On the other hand, China, Vietnam and India defied every rule of the consensus and “success have taken place in countries that have marched to their own drummer and are hardly poster children of neoliberalism” (Rodrik, 2002, p. 1).

Nevertheless, Rodrik found it obvious that by the end of the 1990s the consensus had been altered; in the form of what he named the “Augmented Washington Consensus”. There was a revision in the dominant thinking of multilateral agencies and policy economists in Washington that produced a broader research agenda, “the second generation reforms”. The second generation of reforms arose due to a mixture of different factors. There was the recognition that: firstly market orientated reforms were ineffective without institutional rejuvenation; secondly, financial liberalization would lead to crises without a sensible macroeconomic framework and prudential supervision; lastly, a trickle-down approach to poverty reduction did not prove adequate. Thus there was a need for social policies and anti-poverty programs.

The change in thinking in the international community can be demonstrated by a number of initiatives: the Inter-American Development Bank produced the research report *Facing up to Inequality in Latin America* (1998–99); the World Bank released a number of reports *The East Asian Miracle* (1993), *The World Development Report 1997: The State in a Changing World*, *Global Economic Prospects and the Developing World* (1997), *The World Development Report: Attacking Poverty* (2000–01); in 1999, there was a review committee of the IMF’s Enhanced Structural Adjustment Facility that identified a number of problems such as the lack of focus on poverty, an excessive focus on stabilization relative to growth and technical mistakes with respect to sequencing such as financial liberalization before establishing an effective regulatory structure; the International Monetary Fund renamed its assistance to the poorest nations the Poverty Reduction and Growth Facility; both the IMF and World Bank linked debt relief for the poorest and indebted nations with poverty reduction strategies; and the 1998 Nobel Prize in economics was awarded to Amartya Sen, who emphasized the association between human capabilities and political freedom as the means and objectives of development. In addition, the 1994 and 1998 summits of the heads of state of the Americas called attention to poverty reduction and equity. This was because Latin America had made little progress against poverty and income inequality; the uncertain impact of globalization on Latin America and the world and the vicious circle between low growth and persistent poverty, as poverty and inequality impede growth and low growth enhances poverty and inequality (Birdsall et al., 2001, p. 9). The heads of Latin American states adopted poverty reduction, education, and good governance as objectives of development superseding, but not purging economic growth.

Rodrik (2002, p. 1) christened this new set of policies adopted by Washington the “Augmented Washington Consensus”, which

demanding “heavy-duty institutional reform”, target problems associated with good governance and also acknowledged the need for some social policies. The Augmented Washington Consensus interpreted the negative outcomes of the original Consensus as the result of the inadequate application of the policies recommended, but nevertheless, concluded that these original policies were based on sound principles. The new formula is economic growth = best practice institutions + openness to trade and capital flows. The Augmented Washington Consensus established the eligibility criteria for the Millennium Challenge Account, the means of the Bush administration to assist low-income countries (Williamson, 2004b, p. 4).

The extended list contains some items that are not new reforms in themselves but rather were necessary changes to make the policies in the original list work, or to prevent some of those original reforms from failing. It is necessary to point out that Rodrik is not endorsing the Augmented Washington Consensus, even though he has been accused of doing so⁶; rather he was stating what “Washington” was endorsing by 2002. Rodrik was using the term Augmented Washington Consensus in a derogatory form. The Augmented Washington Consensus consists of the 10 original Washington Consensus policies plus a representative sample of 10 items (to preserve symmetry with the original Washington Consensus) of the second-generation of reforms.⁷ In the following I outline the policy instruments of the Augmented Washington Consensus based on Rodrik (2002, 2004) in the order presented by the author with the stipulation how each policy relates to the original Washington Consensus and placed in Table 1. The Augmented Washington Consensus consists of the 10 policies of the original Washington Consensus plus:

1. *Corporate governance*: this policy would be placed in the “institution building” established by the Washington Consensus as a neoliberal manifesto.
2. *Anti-corruption*: this policy would be placed in the institution building entry established by the Washington Consensus as a neoliberal manifesto.
3. *Flexible labor markets*: this policy would be placed in the deregulation entry established by the original Washington Consensus.

⁶ Baumol et al. (2007, p. 57) put across that “Rodrik, a noted critic of the original Washington Consensus, proposes moving in a very different direction: augmenting Williamson’s initial list with another ten factors that he believes are central to growth. Table 2 lists Rodrik’s 10 additional policy prescriptions” (emphasis in the original). Rodrik’s response in his weblog was: “I propose what? The authors leave the reader (here and the ensuing discussion) with the distinct impression that I am a proponent of the Augmented Washington Consensus, just as John Williamson was a proponent of the original Washington Consensus. Not so, of course. Far from endorsing this enlarged agenda, my purpose in drawing it up (as a summary of where I felt policy advice had moved) was to bemoan its lack of realism and relevance the needs of developing societies” (<http://rodrik.typepad.com/dani.rodriks.weblog/2007/12/index.html>).

⁷ It is odd to note that the reprint of the Augmented Washington Consensus table in Kuczynski and Williamson (2003, p. 268) and in Williamson (2004b, p. 22) entries 11 and 12 are not the same. Entry 11 is Legal and Political Reform and entry 12 is Regulatory Institutions. Williamson (2004b, p. 1–2) asserts that the augmented Washington Consensus is “the set of economic policies advocated for developing countries in general by official Washington, meaning the international financial institutions (IFIs, primarily the IMF and World Bank) and the US Treasury. Dani Rodrik (2002) has provided a convenient summary of what he conceived this to consist of in the year 1999”. While Rodrik’s paper was published in 2002, Williamson refers to 1999 but still cites the 2002 paper in the text. Possibly Williamson read an earlier version of the paper, and subsequently Rodrik might have changed entries 11 and 12 in the final version. In personal communication with Rodrik by email (11/24/2004), he revealed that he had used the table presenting the Augmented Washington Consensus in a number of papers, but he could not recall any changes over time. I have not been able to substantiate a reason for this discrepancy.

4. *WTO agreements*: this policy would be placed in the trade liberalization entry established by the original Washington Consensus. Rodrik (2002, p. 2) comments: “the easiest exercise in the world for a graduate student in economics is to write down a model in which trade restrictions or capital flows are welfare enhancing”.
5. *Financial codes and standards*: this policy would be placed in the financial liberalization entry established by the original Washington Consensus.
6. *“Prudent” capital-account opening*: this policy would be placed in the trade liberalization entry established by the original Washington Consensus.
7. *Non-intermediate exchange rate regimes*: this policy would be placed in the exchange rates entry established by the original Washington Consensus. Williamson (2004b, p. 2) stipulated that this entry, non-intermediate exchange rate regime, contradicts the entry of a unified and managed competitive real exchange to maintain competitiveness of the original Washington Consensus.
8. *Independent central banks/inflation targeting*: this policy would be placed in the institution building entry established by the Washington Consensus as a neoliberal manifesto. However, in Rodrik’s (2002, p. 2) opinion “the current obsession with independent central bank, flexible exchange rates, and inflation targeting is nothing other than a fad”.
9. *Social safety nets*: this policy would be placed in the public expenditure priorities entry established by the original Washington Consensus.
10. *Targeted poverty reduction*: this policy would be placed in the public expenditure priorities entry established by the original Washington Consensus.

Rodrik’s verdict was that: “the Augmented Washington Consensus is bound to disappoint, just as its predecessor did. There are many things wrong with it. It is an impossibly broad, undifferentiated agenda of institutional reform. It is too insensitive to local context and needs. It does not correspond to the empirical reality how development really takes place. It describes what “advanced” economies look like, rather than proscribing a practical, feasible path of getting there. In short, the Augmented Washington Consensus is infeasible, inappropriate, and irrelevant” (Rodrik, 2002, p. 1). Hence, even the Augmented Washington Consensus, as it was adopted by Washington at the end of the 1990s in response to the failures of the original Washington Consensus, was not adequate. “If Latin America was booming today and China and India were stagnating, we would have an easier time fitting the world to our policy framework. Instead, we are straining to explain why unorthodox, two-track, gradualism reform paths have done so much better than sure-fire adoption of the standard package” (Rodrik, 2004, p. 32).

How did the Augmented Washington Consensus compare with the emerging consensus, the post-Washington consensus⁸ that Stiglitz was arguing? First of all, Rodrik used the term Augmented Washington Consensus in a derogatory form, while Stiglitz was trying to build up something that he thought to be positive. It is also interesting to note that in Rodrik’s (2002, 2004) papers in which he formulated the Augmented Washington Consensus, there is no mention of Stiglitz’s post-Washington consensus. In Rodrik’s (2004) paper, Stiglitz (1998) in which he introduced the concept of the post-Washington consensus, is referenced in a footnote in p. 5 as one of a number of diverse perspectives on economic develop-

ment. If we subscribe to Rodrik’s view that Washington had adopted the Augmented Washington Consensus by altering the Washington Consensus, Stiglitz’s verdict of an emerging post-Washington consensus was at least not adopted in Washington and as such was never implemented. To be fair to Stiglitz (1998, p. 34) he argued that “one principle that emerges from these ideas is that whatever the new consensus is, it cannot be based on Washington”. But if there was a consensus emerging as post-Washington consensus, if it was not based in Washington where was it coming from? As well, why use a name like post-Washington consensus, since it was not a consensus based in Washington? In the end, the post-Washington consensus was neither based in Washington nor did it appear to be a consensus. The name post-Washington consensus appears to be awkward and confusing.

5. After the Washington Consensus

Pedro-Pablo Kuczynski and John Williamson (2003) edited a book titled: *After the Washington Consensus. Restarting Growth and Reform in Latin America*. This book “is all about reforms that need to be made in Latin America” (Williamson, 2003a, p. 18) from 2002. The aim of the new agenda is to correct all the aforementioned problems stated as alternatives to the original Washington Consensus. As it has been demonstrated “the Washington Consensus did not contain all the answers to the questions of 1989, let alone that it addresses all the new issues that have arisen since then. So of course we need to go beyond it” (Williamson, 2004a, p. 14). The editors of this book made an effort of not “repeating ad nauseam” the phrase “Washington Consensus” in the text. “When a term has come to acquire such different meanings, it is time to drop it from the vocabulary” (Williamson, 2003b, p. 12). The naming of the new set of policies “After the Washington Consensus” was a conscious act as there is no attempt to establish a consensus again; the set of policies offered are those “that the authors of this book believe are needed” (Williamson, 2003c, p. 330) and “. . . [After the Washington Consensus] is not presented as ultimate truth” (Williamson, 2003d, p. 321).

In the following I outline the policies of the *After the Washington Consensus* based on Kuczynski and Williamson (2003) in the order presented by the authors with the stipulation how each policy relates to the original Washington Consensus and placed in Table 1:

New Agenda I: Crisis Proofing: an objective of highest priority. Governments should attempt to reduce vulnerability to crises and stabilize the macro-economy. Volatility also explains the high unequal distribution of income. This policy requires: stabilizing inflation (consistent with the original Washington Consensus); to stabilize the real economy through Keynesian policies; subnational governments subject to hard budget constraints; establish a stabilization fund; flexible exchange rates;⁹ minimize the use of the dollar; monetary policy targeting a low rate of inflation; strengthening prudential supervision and increase domestic savings. This policy would be placed in Table 1 in the following entries of the original Washington Consensus: fiscal discipline, public expenditure priorities, financial liberalization, exchange rates, trade liberalization and institution building.

New Agenda II: Completing First-Generation Reforms: Even in the case of Argentina, widely regarded as the poster child for the Washington Consensus (Williamson, 2003c, p. 2), whilst in 2001–2 the country was embroiled in the deepest crisis that has been experienced in Latin America at least since the 1980s, the Washington

⁸ The post-Washington consensus is not extensively analyzed in this paper, as the paper concentrates only on implemented versions of the Washington Consensus and not on theoretical alternatives with no actual realization of suggested policies.

⁹ Williamson (2003d, p. 320, 2004b, p. 13) accepts the need that there might be some situations in favor of fixed rates and in the case the economy is dominated by the USA dollarization is advised.

Consensus cannot be held responsible, as Williamson argues. In 1991 Argentina adopted a currency board that was successful in eliminating hyperinflation, but being a rigid system it overvalued the currency to excessive uncompetitive levels. At the same time Argentina failed to implement the strict fiscal policies required for the currency board to succeed. Both these policies were not consistent with the Washington Consensus; thus it is unwarranted to blame the consensus for Argentina's disaster. "I find it a bit rich to hear the Washington Consensus blamed for Argentina's implosion" (Williamson, 2004b, p. 8) and "Look at items 1 [Fiscal Discipline] and 5 [Exchange Rate Policy] in the list above, and you will see why I resent people trying to blame the Washington Consensus for the Argentinean collapse" (Williamson, 2004–5, p. 199). "Of course, none of this argues for abandonment what I meant by the Washington Consensus" (Williamson, 2003c, p. 329). Hence, there is a need of completing rather than reversing the reforms based on the Washington Consensus. The original formulation of the Washington Consensus was a sensible, yet an incomplete reform agenda (Williamson, 2004–5, p. 196). First of all, liberalizing the labor market, so as to encourage labor back into formal sector where labor will get at least minimal social protection. Complementing import liberalization with better access to export markets in developed countries. Continuing the privatization program, even though in some cases it was carried out badly. Supplementing financial liberalization by the strengthening of prudential supervision. It is reminded that "reducing government intervention in the economy is not the same as a desire for a minimalist government" (Williamson, 2003d, p. 308). This policy would be placed in Table 1 in all the entries of the original Washington Consensus.

New Agenda III: Second-Generation Reforms: in the 1990s a key innovation in development economics was the recognition of the crucial importance of institutions in ensuring that the economy functions effectively, termed by Naim (1994) "second-generation reforms".¹⁰ A vital role for the state, which is perfectly consistent with mainstream economics, is creating and maintaining effective institutions, in providing public goods, internalizing externalities, correcting income distribution, decent infrastructure, a stable and predictable macroeconomic, legal and political environment and a strong human resource base. The second generation of reforms involves, in addition to the above, reforming the judiciary, providing teachers and civil services, building a national innovation system (to promote the diffusion of technological information, fund precompetitive research, providing tax incentives, encouraging venture capital and industrial clusters), modernizing the market institutional structure (property rights and bankruptcy laws) and institutional reform in the financial sector (strengthening prudential supervision). However, a mistake would be the initiation of an industrial policy, a program that requires government to "pick winners". There is more sympathy for a "cousin" of industrial policy, the national innovation system: government policy is to create an institutional environment in which those firms that want to innovate find the necessary supporting infrastructure such as to provide technical education to promote the diffusion of technological information, to fund precompetitive research, to provide tax incentives for R&D, to encourage venture capital, to stimulate the growth of industrial clusters and so on (Williamson, 2004b, p. 11). There is also the recognition that the second generation of reforms would differ for each country and cannot be determined a priori from the agenda. Williamson (2004a, p. 13) recognizes that this is a depart-

ture from the Washington Consensus, which focused on policies rather than institutions.¹¹ This policy would be placed in the row Institution Building as the result of the entry by the Washington consensus as a neoliberal manifesto.

New Agenda IV: Income Distribution and the Social Sector: growth is always pro-poor, as benefits trickle-down. But the poor will not benefit as much as they do not have much resources to start with as in Latin America. Hence there is a case to be made for supplementing the gains of growth with a degree of income distribution. Progressive taxes are the traditional means for income redistribution, namely levying heavier taxes on the wealthy. While tax reforms have been implemented to broaden the tax base, in Latin America, by shifting from direct to indirect taxation, Williamson (2003a, p. 16) now is in favor of reversing the process and increasing direct tax revenue by: establishing property taxation as the major source of revenue; elimination of tax loopholes and taxing income earned on flight capital. An increase in tax revenue should be used to reduce inequality by expanding opportunities for the poor, spending on basic social services, social safety net, education and health. However, the strategy focuses more on measures to empower the poor to exploit potentialities ("bootstraps") rather than a massive redistribution of income through tax ("Band-Aids"). It is a long run strategy to allow access to assets that will enable the poor to earn their way out of poverty by improved educational opportunities, titling programs to provide property rights to the informal sector, land reform and microcredit. "Hence, our focus is on both accelerating growth and improving income distribution. We believe that both are possible and both are necessary" (Kuczynski, 2003, p. 31). Income distribution would be placed in Table 1 in the Tax Reform entry of the original Washington Consensus and social sector in the public expenditure priorities.

In Williamson's latest publication (Cline and Williamson, 2005), there is no mention of the *After the Washington Consensus*. While the paper is only restricted to trade and aid as means of fostering development, nevertheless the recommendations are consistent with those in *After the Washington Consensus*. For example, there is a recommendation that developing countries should strengthen crisis prevention (meaning anti-cyclical policies) and stimulate the development of human capital as a means of reducing poverty (Cline and Williamson, 2005, p. 412). There is also recognition that the widespread acceptance of markets around the world has been complemented with "market fundamentalism" instead of making the market economy work for the benefit of all, especially the poor. The recommendations regarding trade are: industrial countries should sharply cut agricultural tariffs and quotas; middle-income countries should reduce protection; complete free entry of imports from Less Developed Countries and from Heavily Indebted Poor Countries and sub-Saharan Africa and liberalization of trade in textiles and apparel. With regard to aid there is a recognition that the quantity and quality of US aid has been poor and as such the following recommendations are stipulated: increase of US aid; "forcefully implement" the Millennium Challenge Account principles; support for the IMF and World Bank; providing aid promptly when conditions in "failing state" show a favorable change and continue efforts to increase the portion of the World Bank's International Development Association financing in the form of grants for countries with incomes below \$300 per capita. Cline and Williamson (2005, p. 425) emphasize that efforts in line with these recommendations would foster growth, reduce global poverty and contribute to a more equitable and safer world.

¹⁰ By the way, Williamson (2003a, p. 2, 2003b, p. 13) acknowledges that the term "second-generation reforms" is a misnomer, inasmuch that effective institutions might be a prerequisite for liberalization, which necessitates that the second-generation reforms ought to precede the first!

¹¹ I speculate that Williamson's incorporation of institution building in the required set of policies might reflect the influence by the then rising popularity of the new institutional economics.

6. Conclusion

The response to the Washington Consensus as it was mostly interpreted as a neoliberal manifesto reasonably stimulated a new set of policies implemented by “Washington” in the form of the Augmented Washington consensus. The evolution of the debate on the set of policies required for international development, as it is demonstrated in this paper, resulted in Williamson partially accepting, in the end, the criticisms associated with the original Washington Consensus. The latest set of policies in the form of the After the Washington Consensus should be viewed as the result of the natural historically evolutionary process in international development policy. With the proposal of the *After the Washington Consensus*, Williamson asserted that consensus does not exist anymore and added new policies without dismissing the original ones. In conclusion, all these alternative set of policies, the original Washington Consensus, the ‘misinterpretation’ of the Washington Consensus as a neoliberal manifesto, the Augmented Washington Consensus, and subsequently and finally followed by the *After Washington Consensus* were indispensable components for the establishment of a “consensus”. At the end, there might likely only be an “uncertain consensus” (Santiso, 2004, p. 841).

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